



May 28th, 2014

Gerard Poliquin
Secretary of the Board National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comment to the Proposed Prompt
Corrective Action – Risk-based Capital
Regulation

Dear Mr. Poliquin:

On behalf of Metco Credit Union, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. While our credit union recognizes the need for a well balanced and credit union specific set of capital standards as an alternative to the current net worth standard established by Congress in 1998 that specifies 7% net worth as the standard to be well-capitalized of all credit unions regardless of their individual risk profiles, we have serious concerns about the proposed Risk Based Capital rule that we feel must be addressed or the result would be a less workable capital standard putting the credit union charter at a competitive disadvantage to our competitors. We would like to respectfully address the following concerns and possible improvements to the regulation in these specific areas.

For FY 2013, our MBL loans were 6.36% of our total assets. In contrast, interest income generated from our MBL portfolio was 7.19% of our total income. These numbers underscore the value proposition Community Business Lenders Service Company, LLC provides to our credit union and our members. Given modest demand for our consumer loan products, our MBL portfolio has been a critical part of our total revenue.

At \$11,000 per share, our investment, three shares, in Community Business Lenders Service Company, LLC is not material to our credit union as it relates to our total assets. However, the benefits of ownership include discounted fees, priority funding of new deals, and training provided without charge. Further, the operating agreement governing our CUSO investment includes a provision that does not allow the CUSO to make a capital call. Accordingly, we believe a risk weighting of 100% for this CUSO is appropriate as the risk to the credit union is limited to its original investment. The proposed weighting of 250% is not appropriate given NCUA's requirement that CUSO's represent and warrant a corporate veil exists between the CUSO and credit union owners. Such a representation is typically predicated on an ownership agreement that prohibits capital calls.

Our CUSO earned more than 30% on Member's Equity in 2013 and paid owners 38% of the net income in the form of a dividend. The dividend income supplemented our credit union results.

Our CUSO, Community Business Lenders Service Company, LLC, provides an opportunity for diversification of our portfolio within the existing 12.25% NCUA cap. Many asset types are available through the CUSO. The CUSO provides monitoring tools to manage concentration risk. Additional regulatory burden will discourage CUSO formation and ultimately adversely impact credit union safety and soundness.

We are also very troubled by proposed Section 702.105(c). Unlike under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions will no longer have clear rules by which to run their credit union to avoid prompt corrective action by their regulatory agency. NCUA can "move the goalposts" any time they want. Why have any tables of risk rating if the levels can be changed on a credit union by credit union basis?

This proposed section invites inconsistent and potentially arbitrary applications of rules. To provide the clarity of capital and net worth expectation that a credit union board and management team must have in order to make strategic business and fiduciary decisions, subjective standards must be eliminated. Therefore, in our view, Section 702.105(c) should be deleted in its entirety.

I know first-hand of the struggle credit unions have to generate net income in today's economic climate. Interest rates are at record low levels. The operational costs, especially in areas of personnel costs, compliance and technology, are increasing exponentially. Coupled with the challenges Metco Credit Union is experiencing in generating quality loans, the average net interest margin has continue to decline for several years.

It has been our observation and our experience that CUSOs have been extremely successful in helping credit unions generate net income and the very capital that NCUA seeks. We want to share those observations and experiences.

The proposed implementation date is eighteen months after final passage. This is an unreasonably short time period considering the long term and significant impact of this new rule on credit union strategic business decisions. Credit unions have very limited means to raise capital under present statute and regulation. It will necessarily take a considerable amount of time to make adjustments within the balance sheet when the rules are suddenly changed. We recommend that an implementation period of no less than three years from final passage is much more appropriate. Again, in the interest of comparability, this is much more consistent with the timeframes given the banking industry as their regulators have implemented the BASEL capital standards; even though they have more access to capital management and capital building options than credit unions.

The true risk is not the investment or loan to a CUSO, rather it is *not* investing in a CUSO to share risk, reduce costs and increase income. We encourage NCUA to implement regulations that encourage the use of CUSOs to generate net income and remove all regulatory impediments to CUSOs and collaboration. We recommend the removal of risk ratings for CUSO investments and loans as immaterial, inapplicable to CUSO investments and to encourage CUSO investment for policy reasons.

Thank you for the opportunity to comment.

Very truly yours,

A handwritten signature in blue ink that reads "Brad Mertens". The signature is fluid and cursive, with a large loop at the end of the last name.

Brad Mertens
CE/President
Metco Credit Union